



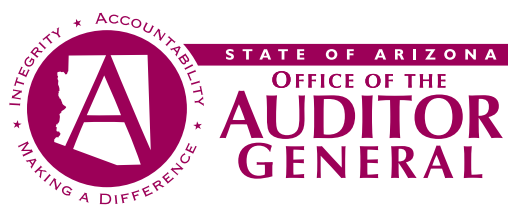
A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Dysart Unified School District No. 89

Year Ended June 30, 2002



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

Accounting Services Division Staff

Michael Stelpstra, Manager and Contact Person
mstelpstra@auditorgen.state.az.us

Roger Walter
Erin Castelhana

Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General
2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.auditorgen.state.az.us



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

March 10, 2004

Governing Board
Dysart Unified School District No. 89
11405 North Dysart Road
El Mirage, AZ 85335

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2002, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District has not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss its deficiencies with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Michael Stelpstra, Accounting Services Manager.

A member of my staff will call the Executive Director of Business and Technology Services in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

TABLE OF CONTENTS



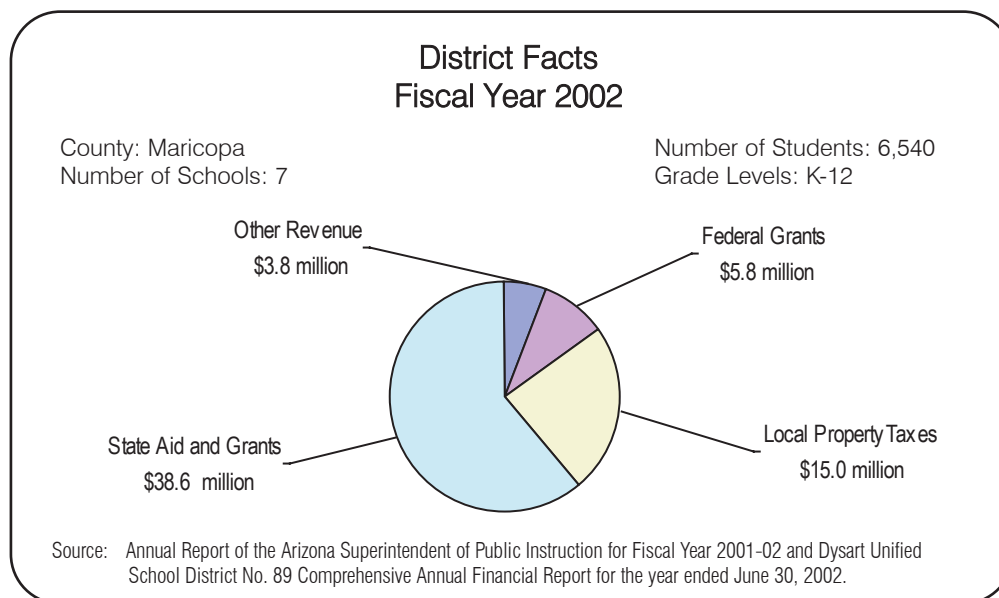
Introduction	1
Recommendation 1: The District must follow competitive purchasing requirements	2
Recommendation 2: The District should maintain accurate accounting records for School Facilities Board monies	3
Recommendation 3: The District's capital assets list should be accurate and complete	4
Recommendation 4: The District should improve controls over student activities monies	5
Recommendation 5: The District should maintain accurate student attendance records	5

INTRODUCTION

Dysart Unified School District No. 89 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for more than \$63 million it received in fiscal year 2001-02 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records (USFR)*, a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2002, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship, and to comply with the USFR. Our recommendations are described on the following pages.



The District must follow competitive purchasing requirements

The District may not have received the best value possible for goods and services as it did not always issue invitations for bids/requests for proposals and obtain written and oral price quotations when required.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules or the USFR guidelines. For example, the District did not always issue invitations for bids or requests for proposals for purchases exceeding the sealed bidding threshold. In addition, the District did not always maintain supporting records to document that it selected the lowest responsive bidder. Also, it did not always obtain oral or written price quotations for purchases that required them.

Recommendations

To strengthen controls over competitive purchasing and to comply with the School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

- Obtain competitive sealed bids or proposals, as appropriate, for purchases of construction, materials, or services exceeding \$32,700.
- Retain documentation supporting the reasons for vendor selection.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$32,700. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

The District should maintain accurate accounting records for School Facilities Board monies

The District receives monies from the School Facilities Board to construct new schools, so it is essential that the District follows procedures that help ensure these monies are appropriately spent and properly recorded. However, the District did not always achieve this objective. Specifically, expenditures relating to a new school were recorded in the Deficiencies Correction Fund instead of the New School Facilities Fund. Additionally, the District received an advance payment of \$1.3 million from the Board and used about \$800,000 to pay architectural fees. However, because the District's accounting records were inaccurate, the remaining \$500,000 was not spent during the fiscal year and not returned to the School Facilities Board. Instead, the District requested additional monies from the Board to pay expenditures that should have been paid from the original advance. According to the District's auditors, the remaining advance of \$500,000 was spent appropriately in the following fiscal year.

Due to inaccurate accounting records, the District requested additional funding for new school construction from the School Facilities Board, even though it had about \$500,000 in advances to pay for the construction.

Recommendations

To help ensure that School Facilities Board monies are spent appropriately, the District should establish and follow the procedures listed below:

- Classify and record transactions in the appropriate fund. The District should use the New School Facilities Fund to account for monies received from the School Facilities Board for constructing new school facilities and purchasing land for new school sites. The District should use the Deficiencies Correction Fund to account for monies received from the Board to correct square footage and quality deficiencies.
- Reconcile revenues recorded in the New School Facilities Fund and Deficiencies Correction Fund to advance payments and drawdown requests on a monthly basis. Advance payments should be spent before requesting additional reimbursements, to help ensure that advance payments are used appropriately.

Arizona Revised Statutes §§15-2021 and 2041 provide accounting guidance for the New School Facilities and Deficiencies Correction Funds.

The District's capital assets list should be accurate and complete

The District did not maintain a complete and accurate capital assets list, nor were all assets tagged as district property to protect them from loss or theft.

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have an accurate list of these assets and to ensure they are properly identified and accounted for. However, the District did not maintain a complete capital assets list. For example, some assets were not in the location indicated on the list, some assets were not marked with district inventory tags, and some assets that were tagged were not included on the capital assets list.

Further, the District's reconciliation of current-year capital assets additions to capital expenditures was not accurate because the District failed to include expenditures for other professional services, such as architects and planners, and construction services object codes in the reconciliation. As a result, the auditors had to add previously unrecorded capital assets to amounts recorded on the list to accurately report the District's capital assets balances in the June 30, 2002, financial statements.

Recommendations

The following procedures can help the District improve control over its capital assets and ensure that its stewardship and capital assets lists are accurate and complete:

- Perform a physical inventory of all land, buildings, and equipment, and compile a list to be used as a basis for updating its stewardship and capital assets lists.
- Update and maintain a stewardship list of capital assets costing \$1,000 or more, but less than \$5,000.
- Update and maintain a capital assets list of equipment and vehicles costing \$5,000 or more and with useful lives of 1 year or more, and all land, buildings, and related improvements with costs of \$5,000 or more.
- Affix a tag with an identifying number to each equipment item costing \$1,000 or more, or specifically identify each asset on the lists by some other means, such as serial number.
- Reconcile items added to the capital assets list during each fiscal year to capital expenditures for that year and make all necessary corrections.

The District should improve controls over student activities monies

The District holds student activities monies raised through students' efforts for safekeeping. Therefore, the District has a fiduciary responsibility to ensure that these monies are not misused, lost, or stolen. The Governing Board is responsible for establishing oversight over these monies to ensure that proper procedures are followed for collecting and spending monies. However, the Governing Board did not establish proper oversight. The District did not always ensure that reconciliations of sales to cash collections for student activities events were prepared. Also, the District did not issue prenumbered cash receipt forms for student activities monies deposited with the business office, and did not always retain invoices to support student activities disbursements.

The District did not ensure that over \$100,000 of students' monies were safeguarded against loss, theft, and misuse.

Recommendations

Student groups should reconcile cash collected to tickets or items sold on student activities cash collections reports to help ensure that the correct amount of cash was collected. For fund-raisers where it is not practical to determine the items sold, such as bake sales, student groups should prepare cash collection reports to document cash collected. When student activities monies are deposited with the business office, the District should prepare and issue prenumbered cash receipt forms for the monies received. The District should retain all documents supporting student activities disbursements including invoices and receiving reports.

A sample form to record cash collections and reconcile sales to cash collected can be found on USFR page X-H-21.

The District should maintain accurate student attendance records

The State of Arizona provides funding to school districts based on average daily membership and attendance. In turn, the State requires school districts to accurately document entry and withdrawal dates, attendance, and absences. Accurate reporting is essential to help ensure that the District receives its fair share of state aid. However, the District's attendance registers did not always accurately report membership days, and student files did not always contain entry forms to support the dates that students were enrolled in school. Furthermore, the District did not always retain student files for withdrawn students, since the files were sent to the students' new schools.

Recommendations

To help ensure that the District receives the correct amount of state funding, the District should record and report attendance in accordance with ADE's *Instructions for Required Reports* and retain documentation to support the attendance records, including student entry and withdrawal forms. Also, the District should periodically reconcile its computer attendance printouts to the teachers' attendance registers to help ensure accuracy. In addition, student withdrawals should be recorded in the computer attendance system using completed withdrawal forms, and withdrawn students' files should be retained.